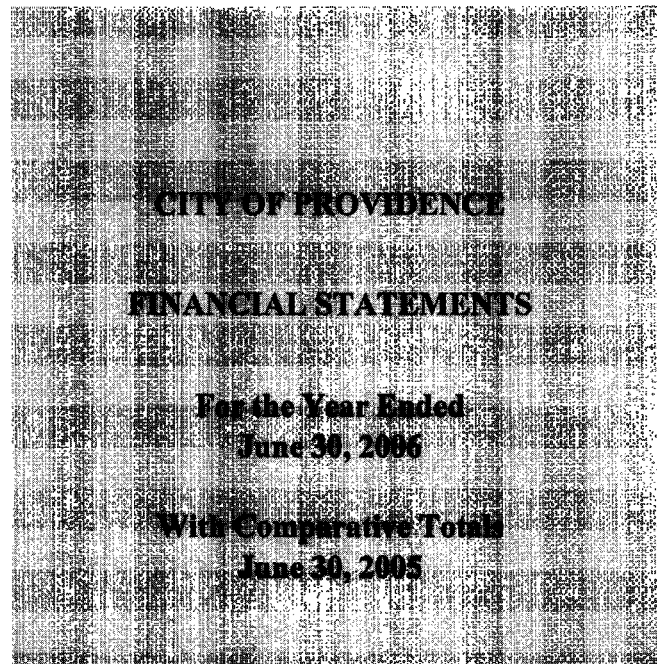




Peterson
Allred
Jackson



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INTRODUCTORY SECTION



Providence City

15 South Main Street
Providence, Utah 84332
(435) 752-9441 • FAX (435) 753-1586

September 20, 2005

Providence City Council
Providence, Utah

Council:

It is with great pleasure that the financial statements for the City of Providence for the year ended June 30, 2005, is presented.

In addition to the fund financial information currently presented in the City's financial statements, this report includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the City including all capital assets (including infrastructure) and the Statement of Activities that shows the cost of providing government services.

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. These financial statements are hereby issued and submitted to you for the fiscal year ended June 30, 2005, in accordance with these requirements.

This report consists of management's representations concerning the finances of the City of Providence. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed to both protect the assets of the City from loss, theft, or misuse and to allow for the compiling of sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal control procedures have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Providence's financial statements have been audited by Peterson Allred Jackson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Providence for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Providence's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

I wish to express my appreciation to all members of the City who assisted and contributed to the preparation of this report.

Respectfully submitted,

Mayor Randy Simmons
City of Providence

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Providence
Providence, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Providence, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results for our audit.

The Management's Discussion and Analysis on pages 10-14, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Impact Fees and the combining nonmajor fund statements listed in the table of contents are presented for purposes of additional analysis of the financial statements of the City. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Peterson Alfred Jackson

November 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Providence, we offer readers of the City of Providence's financial statements this narrative overview and analysis of the financial activities of the City of Providence for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- The total net assets of the City of Providence increased approximately 8.9% to \$12,564,275.
- The total net assets of \$12,564,275 is made up of \$9,122,263 in capital assets net of related debt and \$3,442,012 in other net assets.
- Total long-term liabilities of the City decreased by \$470,252 due to regular principal payments.
- Business-type activities total net assets increased \$897,115.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City of Providence's basic financial statements. The City of Providence's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Providence's finances, in a manner similar to a private-sector business.

- The statements of net assets presents information on all of the City of Providence's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Providence is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Providence that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 16 & 17 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Providence also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds, and proprietary funds.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund. The balance of the governmental funds are determined to be nonmajor and are included in the combining statements within this report.

- Proprietary funds - The City of Providence maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Providence uses enterprise funds to account for its Water Utility and Wastewater Collection Utility.

As determined by generally accepted accounting principles, all enterprise funds meet the criteria of major fund classification.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Providence, assets exceed liabilities by \$12,564,275.

By far the largest portion of the City of Providence's net assets (73%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Current and other assets	\$ 1,730,752	\$ 1,718,319	\$ 2,517,136	\$ 2,302,739
Capital assets	3,481,053	3,340,436	8,807,364	8,505,149
Total assets	5,211,805	5,058,755	11,324,500	10,807,888
Long-term debt outstanding	247,797	336,958	2,918,357	3,299,448
Other liabilities	635,536	528,015	170,340	169,752
Total liabilities	883,333	864,973	3,088,697	3,469,200
Net assets:				
Invested in capital assets, net of debt	3,233,256	3,007,838	5,889,007	5,205,701
Restricted	896,704	877,097	1,734,490	1,689,685
Unrestricted	198,512	308,847	612,306	443,302
Total net assets	\$ 4,328,472	\$ 4,193,782	\$ 8,235,803	\$ 7,338,688

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Revenues:				
Program revenues:				
Charges for services	\$ 1,044,375	\$ 1,001,763	\$ 1,757,932	\$ 1,596,442
Operating grants & contributions	16,434	18,809	-	-
Capital grants & contributions	314,220	173,025	-	-
General revenues:				
Property taxes	313,036	294,080	-	-
Other taxes	769,907	659,697	-	-
Investment income	67,120	35,931	66,178	34,215
Other revenues	7,021	6,208	-	-
Total revenues	2,532,113	2,189,513	1,824,110	1,630,657
Expenses:				
General government	1,270,712	1,149,898	-	-
Public Works	54,511	80,549	-	-
Highways/public improvements	861,981	850,109	-	-
Parks & recreation	210,219	172,951	-	-
Water	-	-	432,847	509,268
Wastewater collection	-	-	494,148	473,633
Total expenses	2,397,423	2,253,507	926,995	982,901
Increase (decrease) in net assets	134,690	(63,994)	897,115	647,756
Net assets beginning	4,193,782	4,257,776	7,338,688	6,690,932
Net assets ending	\$ 4,328,472	\$ 4,193,782	\$ 8,235,803	\$ 7,338,688

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of the June 30, 2006, the City's governmental funds (General and Capital Projects) reported combined fund balances of \$1,091,914. This represents a decrease of \$94,030 over last year's ending balances.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 44% of total general fund revenues. The largest element of taxes is sales taxes as it has been for the last several years. It represents 46% of total tax revenues and represents 20% of total general fund revenues. This compares with 20% in the prior fiscal year ended June 30, 2005.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Significant changes in the governmental funds include capital projects expenses resulting in new asset values of \$479,614.

Significant changes in business-type activities include a \$381,091 decrease in debt in the water and sewer funds due to regular principal payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year the General Fund original budget was amended from an original budget expenditure total of \$2,650,000 to a final budget of \$2,807,900 (6%). These increases were made to take advantage of revenues and expense being higher than originally anticipated for administration costs, public works, sanitation, streets, and parks.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets- The City of Providence's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$12,288,417 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, etc.), and machinery and equipment. The total increase in the City's investment in fixed assets for the current year was 3.7% (due to new purchases exceeding depreciation).

Major capital asset events during the current fiscal year included the following:

- \$80,112 for street and sidewalk improvements.
- \$263,929 for the cemetery and park improvements.
- \$71,466 for a city shed.
- \$478,448 for water improvements.
- \$64,264 for sewer improvements.

CITY OF PROVIDENCE'S CAPITAL ASSETS

	Governmental Activities	Business-type Activities
Land	\$ 541,275	\$ 316,498
Buildings	576,485	195,724
Improvements	1,087,079	11,335,748
Infrastructure	3,663,197	—
Machinery & equipment	696,073	193,558
Less: Accumulated depreciation	<u>(3,083,056)</u>	<u>(3,234,164)</u>
Total	<u>\$ 3,481,053</u>	<u>\$ 8,807,364</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - At June 30, 2006, the City had total bonded debt outstanding of \$3,549,000. Of this amount \$1,097,000 is considered to be general obligation debt and backed by the full faith and credit of the City; and the remainder of \$2,452,000 is debt which is secured solely by specific revenue sources (i.e., revenue bonds).

CITY OF PROVIDENCE'S OUTSTANDING DEBT

	Business-type Activities	Governmental Activities
General obligation bonds- sewer and road	\$ 585,000	\$ 243,000
Revenue bonds	<u>2,273,000</u>	<u>—</u>
Total outstanding debt	<u>\$ 2,858,000</u>	<u>\$ 243,000</u>

The City's bonded debt decreased by \$448,000 during the fiscal year.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

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CITY OF PROVIDENCE
STATEMENT OF NET ASSETS
JUNE 30, 2006
With Comparative Totals for 2005

ASSETS	Governmental	Business-type	Memorandum Total	
	Activities	Activities	2006	2005
Cash	\$ 359,369	\$ 575,373	\$ 934,742	\$ 837,327
Account receivable	63,087	172,864	235,951	179,477
Taxes receivable	345,520	-	345,520	322,326
Restricted cash	854,229	1,734,490	2,588,719	2,530,394
Restricted taxes receivable	42,475	-	42,475	36,388
Bond discounts	5,715	34,409	40,124	47,698
Due from other funds	60,357	-	60,357	67,448
Capital assets				
Land and water rights	541,275	316,498	857,773	831,141
Buildings	576,485	195,724	772,209	698,061
Improvements	1,087,079	11,335,748	12,422,827	11,616,186
Infrastructure	3,663,197	-	3,663,197	3,583,085
Machinery & equipment	696,073	193,558	889,631	785,282
Less: Accumulated Depreciation	(3,083,056)	(3,234,164)	(6,317,220)	(5,668,170)
Total assets	<u>\$ 5,211,805</u>	<u>\$ 11,324,500</u>	<u>\$ 16,536,305</u>	<u>\$ 15,866,643</u>
LIABILITIES				
Checks in excess of deposits	-	-	-	69,696
Accounts payable	318,123	151,577	469,700	308,723
Interest payable	2,413	18,763	21,176	24,348
Long-term payables:				
Due within one year	81,797	385,092	466,889	470,253
Due in more than one year	166,000	2,533,265	2,699,265	3,166,153
Deferred revenue	315,000	-	315,000	295,000
Total liabilities	<u>883,333</u>	<u>3,088,697</u>	<u>3,972,030</u>	<u>4,334,173</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,233,256	5,889,007	9,122,263	8,213,539
Restricted for:				
Debt service and proceeds	-	935,263	935,263	865,826
Roads and city improvements	896,704	799,227	1,695,931	1,700,956
Unrestricted	198,512	612,306	810,818	752,149
Total Net Assets	<u>\$ 4,328,472</u>	<u>\$ 8,235,803</u>	<u>\$ 12,564,275</u>	<u>\$ 11,532,470</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PROVIDENCE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005

	Program Revenues				Business-type Activities	Memorandum Totals	
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions		2006	2005
Governmental activities:							
General government	\$ 1,270,712	\$ 503,655	\$ 13,676	\$ -	\$ (753,381)	\$ (753,381)	\$ (656,940)
Public Works	54,511	48,920	2,758	-	(2,833)	(2,833)	(34,124)
Highways & public improvements	861,981	371,024	-	261,905	(229,052)	(229,052)	(330,688)
Parks, recreation & public property	210,219	120,776	-	52,315	(37,128)	(37,128)	(38,158)
Total governmental activities	2,397,423	1,044,375	16,434	314,220	(1,022,394)	(1,022,394)	(1,059,910)
Business-type activities:							
Water	432,847	916,497	-	-	483,650	483,650	311,322
Wastewater collection	494,148	841,435	-	-	347,287	347,287	302,219
Total business-type activities	926,995	1,757,932	-	-	830,937	830,937	613,541
General Revenues:							
Taxes:							
Property taxes levied for general purposes					313,036	313,036	294,080
Franchise and phone taxes					274,801	274,801	226,156
General sales taxes & highway sales taxes					495,106	495,106	433,541
Business licenses					7,021	7,021	6,208
Investment income					67,120	66,178	70,146
Total general revenues					1,157,084	1,223,262	1,030,131
Change in net assets					134,690	897,115	1,031,805
Net assets - beginning					4,193,782	7,338,688	10,948,708
Net assets - ending					\$ 4,328,472	\$ 8,235,803	\$ 11,532,470

The notes to the financial statements are an integral part of this statement.

**CITY OF PROVIDENCE
GOVERNMENTAL FUNDS TYPE
BALANCE SHEET
JUNE 30, 2006
With Comparative Totals for 2005**

	General	Other Governmental Funds	Memorandum Totals	
			Governmental Funds 2006	Governmental Funds 2005
ASSETS				
Cash	\$ 359,369	\$ -	\$ 359,369	\$ 384,941
Accounts receivable	63,087	-	63,087	58,887
Taxes receivable	345,520	-	345,520	322,326
Restricted assets:				
Cash	893,121	(38,892)	854,229	840,709
Taxes receivable	42,475	-	42,475	36,388
Due from other funds	60,357	-	60,357	67,448
Total assets	\$ 1,763,929	\$ (38,892)	\$ 1,725,037	\$ 1,710,699
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 318,123	\$ -	\$ 318,123	\$ 229,755
Deferred revenue	315,000	-	315,000	295,000
Total liabilities	633,123	-	633,123	524,755
Fund Balance:				
Reserved for roads	251,639	-	251,639	213,460
Reserved for cemetery/library	120,821	-	120,821	148,493
Reserved for Capital projects fund	-	(38,892)	(38,892)	32,574
Reserved for impact fees	504,031	-	504,031	482,570
Reserved for parks and public property	59,105	-	59,105	-
Unreserved - undesignated	195,210	-	195,210	308,847
Total fund balance	1,130,806	(38,892)	1,091,914	1,185,944
Total liabilities and fund balance	\$ 1,763,929	\$ (38,892)		

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance -governmental funds

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets for 2006 and 2005 is \$6,564,109 and \$6,057,687, respectively and the accumulated depreciation is \$3,083,056 and \$2,717,251 respectively.

3,481,053 3,340,436

To recognize interest accrual to year end. Accrued interest is for general obligation bonds.

(2,413) (3,260)

Bond issue costs are reported as expenditures in the governmental funds. The cost is \$19,050 and accumulated amortization is \$13,335 and \$11,430, respectively for 2006 and 2005.

5,715 7,620

Long-term liabilities, including bonds payable and capital leases are not due and payable in the current period and therefore are not reported in the funds.

(247,797) (336,958)

Total net assets - governmental activities

\$ 4,328,472 \$ 4,193,782

The notes to the financial statements are an integral part of this statement.

**CITY OF PROVIDENCE
GOVERNMENTAL FUNDS TYPE
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005**

			Memorandum Totals	
	General	Other Governmental Funds	Governmental Funds 2006	Governmental Funds 2005
Revenues:				
Taxes & special assessments	\$ 1,082,943	\$ -	\$ 1,082,943	\$ 953,777
Licenses and permits	357,925	-	357,925	360,761
Intergovernmental	268,761	-	268,761	191,834
Charges for services	540,720	-	540,720	525,539
Fines & forfeitures	120,698	-	120,698	95,880
Investment income	67,120	-	67,120	35,931
Miscellaneous	32,053	-	32,053	25,791
Total revenues	<u>2,470,220</u>	<u>-</u>	<u>2,470,220</u>	<u>2,189,513</u>
Expenditures:				
Current:				
General government	1,245,438	-	1,245,438	1,156,876
Public works	47,850	-	47,850	85,142
Highways & public improvements	795,926	-	795,926	754,493
Parks, recreation & public property	403,570	71,466	475,036	240,464
Total expenditures	<u>2,492,784</u>	<u>71,466</u>	<u>2,564,250</u>	<u>2,236,975</u>
Excess (deficiency) of revenues over expenditures	(22,564)	(71,466)	(94,030)	(47,462)
Other financing sources (uses):				
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(22,564)	(71,466)	(94,030)	(47,462)
Fund balances, beginning of year	<u>1,153,370</u>	<u>32,574</u>	<u>1,185,944</u>	<u>1,233,406</u>
Fund balances, end of year	<u>\$ 1,130,806</u>	<u>\$ (38,892)</u>	<u>\$ 1,091,914</u>	<u>\$ 1,185,944</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PROVIDENCE
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds **\$ (94,030)**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	479,614	
Capital contribution	61,893	
Loss on sale of assets	(12,336)	
Depreciation expense	<u>(388,554)</u>	140,617

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	74,000	
Repayment of capital lease principal	15,161	
Interest expense - general obligation bonds	847	
Amortization of bond issuance costs	<u>(1,905)</u>	<u>88,103</u>

Change in net assets of governmental activities **\$ 134,690**

CITY OF PROVIDENCE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
Taxes:				
General property taxes	\$ 295,500	\$ 307,000	\$ 313,036	\$ 6,036
General sales & use taxes	400,000	500,000	495,106	(4,894)
Franchise and phone taxes	230,000	230,000	274,801	44,801
Total taxes	925,500	1,037,000	1,082,943	45,943
Licenses & permits:				
Business licenses & permits	6,100	6,100	7,021	921
Non-business licenses & permits	269,500	352,800	350,904	(1,896)
Total licenses & permits	275,600	358,900	357,925	(975)
Intergovernmental revenues:				
Class "C" roads	185,000	195,400	200,012	4,612
State liquor allotment	2,000	2,000	2,758	758
State/Local funding	114,300	57,600	65,991	8,391
Total intergovernmental revenues	301,300	255,000	268,761	13,761
Charges for services:				
Sanitation	270,000	315,100	321,024	5,924
Parks & public property	36,200	36,200	42,304	6,104
Communication center	41,000	51,000	48,920	(2,080)
Burial permits/cemetery lot sales	13,000	13,000	12,520	(480)
Impact fees	118,700	118,700	115,952	(2,748)
Total charges for services	478,900	534,000	540,720	6,720
Fines & forfeitures:				
Court fines	82,500	112,000	120,698	8,698
Miscellaneous:				
Interest	23,000	67,000	67,120	120
Donations	-	-	16,415	16,415
Other	25,900	22,300	15,638	(6,662)
Transfers	155,000	250,000	-	(250,000)
Total Miscellaneous	203,900	339,300	99,173	(240,127)
Total Revenues	<u>\$2,267,700</u>	<u>\$ 2,636,200</u>	<u>\$2,470,220</u>	<u>\$ (165,980)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PROVIDENCE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(CONTINUED)
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
EXPENDITURES				<u>POSITIVE (NEGATIVE)</u>
General government:				
Administration	\$ 1,032,700	\$ 1,243,200	\$ 1,005,751	\$ 237,449
Court	74,000	57,800	57,133	667
Community Development	201,200	178,700	161,632	17,068
Library	25,000	21,000	20,922	78
Total general government	<u>1,332,900</u>	<u>1,500,700</u>	<u>1,245,438</u>	<u>255,262</u>
Public Works:				
Public works	<u>33,500</u>	<u>101,200</u>	<u>47,850</u>	<u>53,350</u>
Total Public Works	<u>33,500</u>	<u>101,200</u>	<u>47,850</u>	<u>53,350</u>
Highways & public improvements:				
Streets & highways	701,600	469,700	464,372	5,328
Sanitation	<u>270,000</u>	<u>332,000</u>	<u>331,554</u>	<u>446</u>
Total highways & improvements	<u>971,600</u>	<u>801,700</u>	<u>795,926</u>	<u>5,774</u>
Parks, Recreation & Public Property:				
Parks and recreation	289,500	380,300	385,190	(4,890)
Cemetery	<u>22,500</u>	<u>24,000</u>	<u>18,380</u>	<u>5,620</u>
Total parks, recreation & public property	<u>312,000</u>	<u>404,300</u>	<u>403,570</u>	<u>730</u>
TOTAL EXPENDITURES	<u>2,650,000</u>	<u>2,807,900</u>	<u>2,492,784</u>	<u>315,116</u>
Excess (deficiency) of revenues over expenditures	(382,300)	(171,700)	(22,564)	149,136
Other financing sources (uses)				
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(382,300)	(171,700)	(22,564)	149,136
Fund Balance at beginning of year	<u>1,153,370</u>	<u>1,153,370</u>	<u>1,153,370</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 771,070</u>	<u>\$ 981,670</u>	<u>\$ 1,130,806</u>	<u>\$ 149,136</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PROVIDENCE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
With Comparative Totals for 2005**

	<u>WATER UTILITIES</u>	<u>WASTEWATER COLLECTION</u>	<u>Memorandum Totals</u>	
			<u>2006</u>	<u>2005</u>
ASSETS				
Current assets:				
Cash	\$ 17,307	\$ 558,066	\$ 575,373	\$ 452,386
Accounts receivable	93,119	79,745	172,864	120,590
Bond discounts	34,409	-	34,409	40,078
Restricted cash	1,306,489	428,001	1,734,490	1,689,685
Total current assets	<u>1,451,324</u>	<u>1,065,812</u>	<u>2,517,136</u>	<u>2,302,739</u>
Capital assets				
Land and water rights	277,902	38,596	316,498	289,866
Buildings	195,724	-	195,724	195,724
Improvements other than building	5,757,541	5,578,207	11,335,748	10,793,036
Equipment	126,103	67,455	193,558	177,442
Less Accumulated depreciation	(1,259,563)	(1,974,601)	(3,234,164)	(2,950,919)
Total capital assets	<u>5,097,707</u>	<u>3,709,657</u>	<u>8,807,364</u>	<u>8,505,149</u>
TOTAL ASSETS	<u>6,549,031</u>	<u>4,775,469</u>	<u>11,324,500</u>	<u>10,807,888</u>
LIABILITIES				
Current liabilities:				
Checks in excess of deposits	-	-	-	69,696
Accounts payable	130,068	21,509	151,577	78,968
Interest payable	18,763	-	18,763	21,088
Total current liabilities	<u>148,831</u>	<u>21,509</u>	<u>170,340</u>	<u>169,752</u>
Long-term liabilities:				
Bond, leases, notes payable - due within a year	183,000	202,092	385,092	381,092
Due in more than one year	2,090,000	443,265	2,533,265	2,918,356
Total long -term liabilities	<u>2,273,000</u>	<u>645,357</u>	<u>2,918,357</u>	<u>3,299,448</u>
Total liabilities	<u>2,421,831</u>	<u>666,866</u>	<u>3,088,697</u>	<u>3,469,200</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,824,707	3,064,300	5,889,007	5,205,701
Restricted	1,306,489	428,001	1,734,490	1,689,685
Unrestricted	(3,996)	616,302	612,306	443,302
Total net assets	<u>\$ 4,127,200</u>	<u>\$ 4,108,603</u>	<u>\$ 8,235,803</u>	<u>\$ 7,338,688</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PROVIDENCE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

With Comparative Totals for 2005

	WATER UTILITIES	WASTEWATER COLLECTION	Memorandum Totals	
			2006	2005
OPERATING REVENUES:				
Charges for services	\$ 896,869	\$ 825,825	\$ 1,722,694	\$ 1,563,646
Other operating revenues	19,628	15,610	35,238	32,796
Total operating revenues	916,497	841,435	1,757,932	1,596,442
OPERATING EXPENSES				
Salary and benefits	77,500	77,500	155,000	222,800
Other operating expenses	130,604	277,469	408,073	406,964
Depreciation	147,222	139,179	286,401	271,078
Total operating expenses	355,326	494,148	849,474	900,842
Operating income	561,171	347,287	908,458	695,600
NON-OPERATING REVENUES (EXPENSES)				
Interest income	47,376	18,802	66,178	34,215
Interest charges	(77,521)	-	(77,521)	(82,059)
Total non-operating revenue (expense)	(30,145)	18,802	(11,343)	(47,844)
Change in net assets	531,026	366,089	897,115	647,756
Total net assets - beginning	3,596,174	3,742,514	7,338,688	6,690,932
Total net assets -ending	\$ 4,127,200	\$ 4,108,603	\$ 8,235,803	\$ 7,338,688

The notes to the financial statements are an integral part of this statement.

**CITY OF PROVIDENCE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005**

	<u>WATER UTILITIES</u>	<u>WASTEWATER COLLECTION</u>	<u>Memorandum Totals</u>	
			<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 876,734	\$ 828,924	\$ 1,705,658	\$ 1,590,565
Payments to suppliers	(52,186)	(279,934)	(332,120)	(428,926)
Payments to employees	(77,500)	(77,500)	(155,000)	(222,800)
Net cash provided by operating activities	<u>747,048</u>	<u>471,490</u>	<u>1,218,538</u>	<u>938,839</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(524,352)	(64,264)	(588,616)	(355,563)
Principal paid on capital debt	(179,000)	(202,091)	(381,091)	(376,092)
Interest paid on capital debt	(77,521)	-	(77,521)	(82,059)
Net cash used by capital and related financing activities	<u>(780,873)</u>	<u>(266,355)</u>	<u>(1,047,228)</u>	<u>(813,714)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>47,376</u>	<u>18,802</u>	<u>66,178</u>	<u>34,215</u>
Net increase in cash and cash equivalents	13,551	223,937	237,488	159,340
Cash and equivalents at beginning of year	<u>1,310,245</u>	<u>762,130</u>	<u>2,072,375</u>	<u>1,913,035</u>
Cash and equivalents at end of year	<u>\$ 1,323,796</u>	<u>\$ 986,067</u>	<u>\$ 2,309,863</u>	<u>\$ 2,072,375</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 561,171	\$ 347,287	\$ 908,458	\$ 695,600
Adjustments to reconcile net income from operations to net cash provided by operating activities:				
Depreciation	147,222	139,179	286,401	271,078
Changes in assets & liabilities:				
Decrease (increase) in receivables	(39,763)	(12,511)	(52,274)	(5,877)
Decrease (increase) in other assets	5,669	-	5,669	5,669
Increase (decrease) in accruals	<u>72,749</u>	<u>(2,465)</u>	<u>70,284</u>	<u>(27,631)</u>
Total adjustments	<u>185,877</u>	<u>124,203</u>	<u>310,080</u>	<u>243,239</u>
Net cash provided by operating activities:	<u>\$ 747,048</u>	<u>\$ 471,490</u>	<u>\$ 1,218,538</u>	<u>\$ 938,839</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PROVIDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1: Summary of significant accounting policies

Reporting entity

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparations of the accompanying financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is

incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as

revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Water Utility accounts for the activities of the City's water production, treatment, and distribution operations.

The Wastewater Collection fund accounts for the operation and maintenance of the City-owned collection system for wastewater.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services,

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fixed assets and long-term liabilities

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Prior to the audit for the year ended June 30, 1982, a list of general fixed assets was not kept. At the time of that audit, an inventory of general fixed assets was taken and entered on the books. When actual costs were not available, the assets were recorded at estimated cost.

Depreciation of all exhaustible fixed assets used is charged as an expense against their operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Water and sewer system improvements	40-50 years
Buildings	20-30 years
Machinery and equipment	5-10 years
Roads and infrastructure	15 years
Improvements other than buildings	20 years

Property Tax

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalty bear interest at 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

The City can make adjustments to the adopted budget through public hearings. During the fiscal year, the City made several budget adjustments through a public hearing.

Capitalized Interest

The City capitalizes interest costs and interest earned as part of the cost of constructing various buildings, water and sewer projects when material. Interest is only capitalized in proprietary activities.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the business-type activities considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Issue Costs

Bond issuance costs are deferred and amortized over the life of the bonds using the straight line method. Issuance costs are reported as deferred charges.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$6,564,109
Accumulated depreciation	<u>(3,083,056)</u>
Total difference	<u>\$3,481,053</u>

Long-term liabilities:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements.

Principal portion of bonds and leases	\$ (247,797)
Bond issue costs, net of amortization	5,715
Bond interest accrual	<u>(2,413)</u>
	<u>\$ (244,495)</u>

B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	479,614
Capital contributions	61,893
Loss on sale of assets	(12,336)
Depreciation expense	<u>(388,554)</u>
Net difference as reported	<u>\$ 140,617</u>

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	\$ 74,000
Repayment of capital lease principal	15,161
Interest expense - general obligation bonds	847
Amortization of bond issuance costs	<u>(1,905)</u>
	<u>\$ 88,103</u>

Note 2: Legal Compliance - Budgets/Statutory

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the City council for review at the first scheduled meeting in May. The City council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the City financial officer or the revenue estimates must be changed by an affirmative vote of a majority of the City council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

State statute requires that City officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 3: Cash, savings and investments

Deposits and Investments

Deposits and investments for local government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$2,413,916 of the local government's bank balances of \$2,713,916 were uninsured and uncollateralized.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2006, the local governments had investments of \$814,257 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Note 4: Accounts receivable

Providence City has accounts and taxes receivable as of June 30, 2006, as follows:

General:

Garbage	\$ 35,526	
Property taxes	327,039	
Court	20,140	
Dispatch	5,421	
Franchise tax	18,481	
Professional services	845	
Lot sales	1,075	
Other receivables	<u>80</u>	
Total general		\$ 408,607

Enterprise funds:

Water fund:

Sales	<u>\$ 93,119</u>	
Total water		93,119

Sewer fund:

Services	<u>79,745</u>	
Total sewer fund		<u>79,745</u>

Total enterprise fund		<u>172,864</u>
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Total accounts receivable		<u>\$ 581,471</u>
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Note 5: Restricted assets

The total restricted assets on the balance sheet are comprised of the following cash, cash equivalents, investments and receivables:

General fund:

Accounts receivable - Class C	\$ 42,475
Cash - perpetual care	53,499
Cash - park impact fees	303,702
Cash - road reserve	90,450
Cash - Class C road	118,714
Cash - road impact fees	200,329
Cash - veterans memorial	14,155
Cash -savings	44,950
Cash - library	<u>67,322</u>

Total general fund \$ 935,596

Capital projects fund (38,892)

Enterprise funds:**Water fund:**

Cash - revenue bond sinking/reserve	295,838	
Cash - bond proceeds	639,425	
Cash - impact fees	<u>371,226</u>	
Total water fund		1,306,489

Sewer fund:

Cash - impact fees	<u>428,001</u>	
Total sewer fund		<u>428,001</u>

Total enterprise funds 1,734,490

Total restricted assets \$ 2,631,194

Note 6: Due from/to other funds

The City has designated \$110,000 due to the general fund from the sewer fund arising from the City's sewer project. During the year \$ 7,091 was paid off, leaving a balance of \$ 60,357.

Note 7: General fixed assets

General fixed asset changes occurring for the year ended June 30, 2006, are as follows:

	Balance July 1, 2005	Additions	Deletions	June 30, 2006
Land and improvements:				
By cemetery	\$ 82,854	\$	\$	\$ 82,854
Land by spring	8,000			8,000
City Hall property	39,445			39,445
Bringhurst hollow	33,750			33,750
Von's park	101,246			101,246
Uptown park (school area)	24,979			24,979
New shop property	13,333			13,333
Zollinger's park	353,363			353,363
Sprinkler system - park	15,203			15,203
Cemetery	184,650			184,650
Fence - cemetery	6,077			6,077
Leonhardt land	12,000			12,000
Morris Mathews land donation	25,000			25,000
Hoth land	25,000			25,000
Land-roads	58,260			58,260
Veteran's memorial	14,209			14,209
City parks (various)	174,720			174,720
Soccer field	82,905			82,905
Braegger park	23,626			23,626
300 East	14,479			14,479
Ball field	13,009	35,943		48,952
Cattle coral	8,163	1,228		9,391
Canyon parking lots	2,615			2,615
Retention pond	3,400	18,308		21,708
Leonhardt Park	—	208,450		208,450
Tennis courts	44,139			44,139
Total	<u>1,364,425</u>	<u>263,929</u>		<u>1,628,354</u>
Buildings and improvements:				
Zollinger park building	23,814			23,814
Park Pavilion	13,515			13,515
Shop	91,216			91,216
Equipment shed	17,318			17,318
City office building	110,366			110,366
Monument	2,954			2,954
Scorer's building uptown park	4,000			4,000
Vehicle storage building	71,899			71,899
City Shed	—	71,466		71,466
Park building	—	2,682		2,682
Library	167,255			167,255
Total	<u>502,337</u>	<u>74,148</u>		<u>576,485</u>

Furniture, fixtures, and equipment:

General government	116,554	7,953		124,507
Planning and zoning	585	2,000		2,585
Public safety	33,882			33,882
Streets	331,184	108,365	35,085	404,464
Parks	97,217			97,217
Cemetery	<u>28,418</u>	<u>5,000</u>	<u> </u>	<u>33,418</u>
 Total	 <u>607,840</u>	 <u>123,318</u>	 <u>35,085</u>	 <u>696,073</u>
 Infrastructure	 <u>3,583,085</u>	 <u>80,112</u>	 <u> </u>	 <u>3,663,197</u>
 TOTAL	 <u>6,057,687</u>	 <u>541,507</u>	 <u>35,085</u>	 <u>6,564,109</u>
 Accumulated Depreciation	 <u>(2,717,251)</u>	 <u>(388,554)</u>	 <u>(22,749)</u>	 <u>(3,083,056)</u>
 TOTAL NET ASSETS	 <u>\$3,340,436</u>	 <u>\$ 152,953</u>	 <u>12,336</u>	 <u>\$3,481,053</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 35,227
Streets	277,645
Parks and Recreation	54,999
Public Works	6,661
Cemetery	<u>14,022</u>
 Total Depreciation Expense	 <u>\$ 388,554</u>

Note 8: Accounts payable

Accounts payable consist of amounts incurred and due at June 30, 2006, but which have not been paid as follows:

General:

Accounts and employee benefits	\$ 144,436
Payroll and payroll taxes	32,353
Subdivision deposit	60,731
Utility deposits	14,035
Digging deposits	6,750
Power deposits	<u>59,818</u>

Total general \$ 318,123

Enterprise funds:**Water funds:**

Accounts	\$ 130,068
Interest	<u>18,763</u>

Total water 148,831

Sewer:

Accounts	<u>21,509</u>
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Total sewer 21,509

Total enterprise funds 170,340

Total accounts payable \$ 488,463

Note 9: Capital projects funds

The City has established one capital project fund to account for monies set aside for City capital projects.

Note 10: Changes in long-term debt

The following is a summary of long-term debt transactions of the City's proprietary fund types for the year ended June 30, 2006:

Bonds payable at July 1, 2005	\$ 3,232,000
Less: payment of principal	<u>(374,000)</u>
Bonds payable at June 30, 2005	<u>\$ 2,858,000</u>
Due within one year	<u>\$ 378,000</u>

Bonds payable at June 30, 2006, are comprised of the following individual issues:

Water:

\$1,300,000 water revenue bonds due to U.S. Bank
in varying annual payments including interest at 5.0% per annum.
Payments of interest and interest plus principal ranging from
\$4,700 to \$194,525 are due on January and July 1 of each year.
The principal and interest will be completely
retired on July 1, 2012. \$ 798,000

\$440,000 water revenue bonds due to U.S. Bank
in annual payments of \$88,000 including interest at 0.0% per annum.
Payments of principal are due on January 1 in years 2004 -2008.
The principal will be completely retired on January 1, 2008. 176,000

\$1,350,000 water revenue bonds due to U.S. Bank in varying annual
payments including interest at 2.9% per annum. Payments of principal
and interest are due on May 1 of each year. The principal and interest will be
completely retired on May 1, 2022. 1,299,000

Total water 2,273,000

Sewer:

\$3,500,000 was received from the Water Pollution Security Enhancement
Fund through the State of Utah of Environmental Protection Agency.
Annual payments of \$194,000 commenced in 1992 with a 0% interest rate
and will continue through 2001. Beginning 2002, annual payments of \$195,000
will continue until 2009 wherein the debt will be completely retired. 585,000

Total sewer 585,000

Total bonds payable \$ 2,858,000

The following is a summary of bond principal maturities and interest requirements:

<u>Year ending</u> <u>June 30</u>	<u>Total</u> <u>outstanding</u>
2007	\$ 453,196
2008	530,321
2009	370,788
2010	261,647
2011	260,073
2012 - 2017	909,798
2017 - 2022	<u>571,545</u>
Total	3,357,368
Less interest	<u>(499,368)</u>
Outstanding principal	<u>\$ 2,858,000</u>

The following represents those long-term liabilities that are not reported as fund liabilities but are reported in the statement of net assets.

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2006</u>
Revenue anticipation bonds	\$ 317,000	\$	\$ 74,000	\$ 243,000
Capital leases	<u>19,958</u>	<u> </u>	<u>15,161</u>	<u>4,797</u>
Total	<u>\$ 336,958</u>	<u>\$</u>	<u>\$ 89,161</u>	<u>\$ 247,797</u>

\$700,000 of Excise Tax Road Bonds are due to Bank One with interest of 4.5% annually. Interest is due February 1, May 1, August 1, and November 1 of each year with principal ranging from \$14,000 to \$22,000 due on February 1, May 1, August 1, and November 1 each year. The principal and interest will be completely retired on May 1, 2009.

<u>Year Ending June 30</u>	<u>Total debt outstanding</u>	<u>Total capital leases</u>
2007	86,653	4,875
2008	87,120	
2009	<u>87,408</u>	<u> </u>
Total	261,181	4,875
Less interest	<u>(18,181)</u>	<u>(78)</u>
Outstanding principal	<u>\$ 243,000</u>	<u>\$ 4,797</u>

Note 11: Reserved fund equity

The amounts reported on the combined balance sheet identified as reserved fund balance and reserved retained earnings are comprised of the following:

General fund:

Reserved - road reserve	\$ 90,450	
Reserved - Class C road allotment	161,189	
Reserved - park impact fees	303,702	
Reserved - perpetual care	53,499	
Reserved - savings	59,105	
Reserved - library	67,322	
Reserved - road impact fees	<u>200,329</u>	
Total general fund		\$ 935,596

Capital project fund:

Reserved - city shop	(38,892)
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Enterprise funds:

Water fund (retained earnings):

Reserved - sinking/reserve	295,838
Reserved - bond proceeds	639,425
Reserved - impact fees	<u>371,226</u>
Total water fund	<u>1,306,489</u>

Sewer fund (retained earnings):

Reserved - impact fees	<u>428,001</u>
Total sewer fund	<u>428,001</u>

Total enterprise funds 1,734,490

Total reserved fund equity \$2,631,194

Note 12: Insurance and bond coverage

Providence City has insurance and bonding policies with effective limits as follows:

<u>Description</u>	<u>Issuer</u>	<u>Policy #</u>	<u>Limits</u>	<u>Expiration Date</u>
Insurance:				
Comprehensive general liability (includes vehicle)	Utah Local Governments Trust	13080-GL2005	\$2,000,000	Continuous
Buildings	Unigard	PX809764	1,315,279	7-1-06
Contents			312,164	
Equipment			82,575	
Automobile	Unigard	BA-900005	508,369	7-1-06
Bonds:				
City Treasurer/City Recorder	Allied Mutual	BD7900541202	177,000	9-1-07
City Treasurer/City Recorder	CNA Surety	70011063	600,000	9-1-07

Note 13: Water users and rates

The Providence City water and sewer utility funds service both residential and commercial users. As of June 30, 2006, there were the following number of users in each category:

	<u>Water</u>	<u>Sewer</u>
Residential	1,743	1,650
Commercial	<u>36</u>	<u>28</u>
Total	<u>1,779</u>	<u>1,678</u>

	<u>City</u>	<u>County</u>
Water rates:		
Standard monthly service	\$ 20.25	*first 10,000 gallons
Commercial monthly service		

Overage charges for City and County	
10,000 to 40,000	\$.40 per 1,000 gallons
41,000 to 60,000	\$.65 per 1,000 gallons
60,000 +	\$1.15 per 1,000 gallons

*Determined by size of water pipe

Garbage rates:	
Standard monthly service	\$ 11.00/ 60 gallons
Standard monthly service	\$ 13.25/ 90 gallons
Commercial monthly service	*

* Determined by service area according to volume and number of pickups.

Sewer rates:		
Standard residential service	\$ 29.15	N/A
Multi-unit complex	\$ 29.15	N/A
Standard Commercial	\$ 29.15	N/A
Regulated Commercial	*	

* Determined by Logan City according to type of business

Note 14: Defined benefit pension plan

Plan Description. Providence City contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living allowances and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, the City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the Noncontributory Retirement System for June 30, 2006, 2005, and 2004 were \$62,581, \$52,383, \$41,495, and \$32,108 respectively. The contributions were equal to the required contributions for each year.

Note 15: Defined contribution plan (or 401(k) plan)

Providence City provides supplemental pension benefits for all of its full-time employees through a defined contribution Section 401(k) plan. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Employee contributions are optional within prescribed limits. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested upon deposit into the plan.

The employees made \$ 9,519 in optional contributions.

Note 16: Other assets

Water fund:

Providence City owns water shares in two irrigation companies and carries amounts in the water fund at the cost of such certificates as purchased since July 1, 1980. Water shares purchased since 1980 and capitalized in the water fund total \$155,394 at June 30, 2006. Certificates held prior to that date have never been recorded as follows:

	<u>Shares</u>
Springcreek Irrigation	74.00
Blacksmith Fork Irrigation	<u>135.25</u>
Total	<u>209.25</u>

Therefore, the water fund has an unrecognized value associated to the water shares of the irrigation companies.

Note 17: Memorandum totals

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 18: Segment information

The following information is presented for the water and sewer utility funds of Providence City:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>Water fund:</u>				
Fixed Assets	\$ 5,834,496	\$ 524,352	\$ 1,578	\$ 6,357,270
Accumulated Depreciation	1,113,919	147,222	1,578	1,259,563
<u>Sewer fund:</u>				
Fixed Assets	\$ 5,621,572	\$ 64,264	\$ 1,578	\$ 5,684,258
Accumulated Depreciation	1,837,000	139,179	1,578	1,974,601

Net working capital for the water and sewer utility funds is calculated as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Assets:		
Cash	\$ 1,323,796	\$ 986,067
Receivables	93,119	79,745
Less Current Liabilities:		
Accounts Payable	(148,831)	(21,509)
Current portion of Long-Term Debt	<u>(183,000)</u>	<u>(202,092)</u>
Net Working Capital	<u>\$ 1,085,084</u>	<u>\$ 842,211</u>

SUPPLEMENTAL SECTION

CITY OF PROVIDENCE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006
With Comparative Totals for 2005

		Memorandum Totals	
		Total Nonmajor Governmental Funds 2006	Total Nonmajor Governmental Funds 2005
		Capital Projects	
ASSETS			
Cash - restricted	\$ (38,892)	\$ 32,574	\$ 32,574
Total assets	\$ (38,892)	\$ 32,574	\$ 32,574
Fund Balance:			
Reserved for city yard & facilities	\$ (38,892)	\$ 32,574	\$ 32,574
Total fund balance	(38,892)	32,574	32,574
Total liabilities and fund balance	\$ (38,892)	\$ 32,574	\$ 32,574

The notes to the financial statements are an integral part of this statement.

**CITY OF PROVIDENCE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005**

		Memorandum Totals	
	Capital Project General	Total Nonmajor Governmental Funds 2006	Total Nonmajor Governmental Funds 2005
Revenues:			
Investment income	\$ -	\$ -	\$ -
Total revenues	-	-	-
Expenditures:			
Parks, recreation & public property	71,466	72,884	72,884
Total expenditures	71,466	72,884	72,884
Excess (deficiency) of revenues over expenditures	(71,466)	(72,884)	(72,884)
Other financing sources (uses):			
Transfers in	-	-	-
Net change in fund balances	(71,466)	(72,884)	(72,884)
Fund balance, beginning of year	32,574	105,458	105,458
Fund balance, end of year	\$ (38,892)	\$ 32,574	\$ 32,574

The notes to the financial statements are an integral part of this statement.

**CITY OF PROVIDENCE
SUPPLEMENTAL SCHEDULE
SCHEDULE OF IMPACT FEES**

	2000	2001	2002	2003	2004	2005	2006
Beginning Balance:							
Impact Fees - Road	\$ 57,275	\$ 67,882	\$ 32,480	\$ 80,355	\$ 95,864	\$ 83,976	\$ 144,409
Impact Fees - Parks	102,340	138,672	121,227	156,075	142,676	276,003	338,161
Impact Fees - Water	137,612	-	101,677	152,988	249,024	457,173	503,824
Impact Fees - Sewer	73,094	-	91,960	122,740	267,409	266,585	320,095
Additions:							
Impact Fees - Road	23,544	45,179	53,464	66,745	100,863	58,000	50,000
Impact Fees - Parks	32,102	60,456	73,772	90,040	138,687	77,643	65,952
Impact Fees - Water	102,469	164,902	175,071	227,703	196,230	219,114	229,425
Impact Fees - Sewer	68,739	98,030	107,948	140,719	119,194	131,287	137,262
Interest:							
Impact Fees - Road	3,645	2,251	2,025	2,206	5,273	2,433	5,920
Impact Fees - Parks	7,020	6,951	3,230	3,692	8,975	6,640	12,950
Impact Fees - Water	4,128	5,464	5,491	5,700	11,919	9,827	13,869
Impact Fees - Sewer	2,193	8,618	4,987	3,950	8,020	8,278	14,603
Deletions:							
Impact Fees - Road	(16,582)	(82,832)	(7,614)	(53,442)	(118,024)	-	-
Impact Fees - Parks	(2,790)	(84,852)	(42,154)	(107,131)	(14,335)	(22,125)	(113,361)
Impact Fees - Water	(244,209)	(68,689)	(129,251)	(137,367)	-	(182,290)	(375,892)
Impact Fees - Sewer	(144,026)	(14,688)	(82,155)	-	(128,038)	(86,055)	(43,899)
Ending Balance:							
Impact Fees - Road	67,882	32,480	80,355	95,864	83,976	144,409	200,329
Impact Fees - Parks	138,672	121,227	156,075	142,676	276,003	338,161	303,702
Impact Fees - Water	-	101,677	152,988	249,024	457,173	503,824	371,226
Impact Fees - Sewer	-	91,960	122,740	267,409	266,585	320,095	428,061
	<u>\$ 206,554</u>	<u>\$ 347,344</u>	<u>\$ 512,158</u>	<u>\$ 754,973</u>	<u>\$ 1,083,737</u>	<u>\$ 1,306,489</u>	<u>\$ 1,303,318</u>

The notes to the financial statements are an integral part of this statement.



Peterson
Alfred
Jackson

▪ Certified Public Accountants
Business Consultants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Honorable Mayor and City Council
City of Providence
Providence, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Providence, Utah (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated November 1, 2006.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the City Council and management, and certain legislative bodies and is not intended to be and should not be used by anyone other than these specified parties.

Peterson Alfred Jackson

November 1, 2006



Peterson
Alfred
Jackson

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INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Providence
Providence, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Providence, Utah (the City), for the year ended June 30, 2006, and have issued our report thereon dated November 1, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special test and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City did not receive any nonmajor State grants during the year ended June 30, 2006.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Compliance Audit Guide, including:

Public Debt	Justice Courts
Cash Management	B & C Road Funds
Purchasing Requirements	Liquor Law Enforcement
Budgetary Compliance	Other General Issues
Truth in Taxation and	Impact fees
Property Tax Limitations	Uniform Building Code Standards

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Providence, Utah, complied, in all material respects, with the general compliance requirements identified above, and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Peterson Alfred Jackson

November 1, 2006



Peterson
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Jackson

▪ Certified Public Accountants
Business Consultants

November 1, 2006

Mayor Randy Simmons
City of Providence
Providence, Utah

Dear Mayor Simmons:

In planning and performing our audit of the financial statements of Providence, Utah (the City), for the year ended June 30, 2006, we developed the following recommendations concerning certain matters related to compliance, internal control structure (other than "reportable conditions"), and certain administrative and operating matters. These recommendations resulted from our observations made in connection with our audit of the City's general purpose financial statements for the year ended June 30, 2006, and are not based on a special study. Our comments and principal recommendations are summarized below.

PRIOR YEAR FINDING

Finding: *Fidelity bond.* The City did not have enough fidelity bond coverage by approximately \$50,000 as required by the State as of June 30, 2005.

Recommendation: Increase the fidelity bond to sufficiently meet all State requirements.

Management response: Management has reviewed the State of Utah Uniform Accounting Manual Reference I.C.05.02 regarding the public Treasurer Bonding Requirements.

Status: A new bond for the treasurer was obtained during the fiscal year which meets the State requirements.

CURRENT YEAR FINDINGS

Finding: *Capital Projects Fund deficit.* The Capital Projects fund was overspent during the current year resulting in a deficit fund balance which is a violation of state law.

Recommendation: All capital projects should be monitored to ensure that enough funds are available before the project begins. Transfer enough funds to cover the deficit and monitor future spending.

Management response: Providence will closely monitor the Capital Projects Fund to make sure appropriate transfers and expenses are made so as to maintain a positive balance. Adequate transfers will be made from other funds to cover the deficit and allow for continued projects.

Finding: Payroll files. During our review of the personnel files for payroll compliance we became aware that some files were missing I-9's.

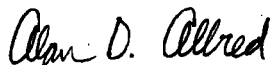
Recommendation: We recommend that the City update all personnel files to incorporate all needed payroll documentation.

Management response: The audit found two files missing I-9 forms; one was a long-time employee that was hired prior to the I-9 requirement, the other was a council member. Providence City staff will review the files and have employees hired prior to the I-9 requirement complete the forms. Staff will also make sure that council members complete the I-9 forms.

In conclusion, we wish to recognize Skarlet Bankhead, Brenda Nelson, Terri Lewis, Tara Bankhead, and Beth Munson, for their excellent service provided to Providence City. The entire staff have been most cooperative in assisting us in the performance of the audit for the 2005-2006 fiscal year. The performance of the Providence City annual fiscal year audit has been an enjoyable experience for us and we would like to thank the City for the opportunity to service as independent auditors.

Sincerely,

PETERSON ALLRED JACKSON



Alan D. Allred, CPA